

PERAC AUDIT REPORT



Brookline

Contributory Retirement System



JAN. 1, 2006 - DEC. 31, 2008



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

September 2, 2009

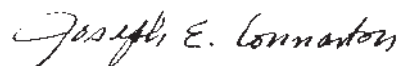
The Public Employee Retirement Administration Commission has completed an examination of the Brookline Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2008. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

It should be noted that the findings determined in this audit report were based on the Laws and Regulations in effect during the time the audit was conducted for the period referenced in this report. These findings do not reflect the changes made to Chapter 32 after passage of Chapter 21 of the Acts of 2009.

In closing, I acknowledge the work of examiners Carol M. Niemira and Martin J. Feeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Investment Approvals

Brookline funded two pooled funds, Hancock Timberlands Fund IX and Sustainable Woodlands Fund II, in 2008 prior to receiving written notice from PERAC's Investment Director that all required regulatory documents had been submitted. The previous audit also determined that Brookline had funded three pooled funds in 2004 prior to receiving PERAC approvals.

Recommendation: Brookline must comply with PERAC's Investment Regulations. 840 CMR 16.08 states in part: "The selection and hiring of investment managers ... by all retirement boards shall be subject to a competitive process which satisfies the boards' fiduciary duty and meets the requirements of M.G.L. c. 32 and 840 CMR. Prior to retention of the vendor Boards shall notify the Commission that such a process as well as the provisions of M.G.L. c. 32 and 840 CMR were adhered to." Written acknowledgement from PERAC is required before funding any investment. PERAC Memorandum #12/2005 dated March 7, 2005 entitled "Overview of Investment Regulations Issues" provides explicit guidance.

Board Response:

The Board has reviewed the investment regulations and PERAC Memorandum #12/2005 and will comply with PERAC's recommendation. Future investments will not be funded until final regulatory approval from PERAC is received. The Board notes that regulatory approval for all cited investments was rendered by PERAC.

2. Members' Contributions

The PERAC auditor sampled members' contributions to determine that the correct rates are being assigned and withheld, and that the additional 2% deduction is withheld from those members who make over \$30,000 annually and were hired after January 1, 1979. The auditor observed that:

- Brookline Housing Authority members receive separate checks for longevity allowances. For that pay period, the Board is receiving less than the required 2% additional retirement deduction from the longevity allowance payments.
- A Housing Authority stipend for being on-call, which is rotated among several employees on a week-by-week basis, is not coded as regular compensation and deductions are not withheld.

Recommendation: The Housing Authority must combine all regular compensation on a per-payroll basis for each member before calculating 2% deductions in order to comply with G.L. c. 32, § 22(1)(b). PERAC Memo #43/1999 discusses the additional 2% deductions.

The on-call stipend, which is also paid with a separate check, must be included in regular compensation on a per-payroll basis when deductions are calculated.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

The Board accepts PERAC's recommendations and will ensure that appropriate retirement contributions are withheld from the cited payments.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2008	2007	2006
Net Assets Available For Benefits:			
Cash	\$1,766,504	\$1,869,351	\$1,726,319
Equities	34,041,289	41,969,487	49,612,558
Pooled Domestic Equity Funds	28,260,933	45,748,175	60,224,437
Pooled International Equity Funds	15,139,969	38,641,135	27,566,160
Pooled Domestic Fixed Income Funds	33,166,482	42,224,764	38,867,911
Pooled International Fixed Income Funds	7,245,750	10,257,037	0
Pooled Alternative Investment Funds	23,201,935	18,951,356	15,010,616
Pooled Real Estate Funds	15,753,711	25,546,429	12,454,512
PRIT Cash Fund	0	0	0
PRIT Core Fund	989,914	1,412,958	1,267,502
Interest Due and Accrued	755	5,921	11,060
Accounts Receivable	631,229	52,184	10,395,507
Accounts Payable	(901,703)	(89,467)	(783,434)
Total	<u>\$159,296,767</u>	<u>\$226,589,330</u>	<u>\$216,353,147</u>
Fund Balances:			
Annuity Savings Fund	\$56,034,991	\$53,707,623	\$52,716,834
Annuity Reserve Fund	20,063,070	19,229,982	17,943,061
Pension Fund	321,802	0	0
Military Service Fund	14,193	14,108	14,024
Expense Fund	0	0	0
Pension Reserve Fund	82,862,712	153,637,618	145,679,228
Total	<u>\$159,296,767</u>	<u>\$226,589,330</u>	<u>\$216,353,147</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2006)	\$49,789,969	\$17,979,045	\$5,023,569	\$13,940	\$0	\$120,884,872	\$193,691,396
Receipts	5,446,915	528,266	11,253,284	84	1,308,148	25,218,335	43,755,032
Interfund Transfers	(1,807,632)	1,807,632	423,979	(0)	0	(423,979)	0
Disbursements	(712,418)	(2,371,881)	(16,700,833)	0	(1,308,148)	0	(21,093,280)
Ending Balance (2006)	52,716,834	17,943,061	0	14,024	0	145,679,228	216,353,147
Receipts	5,732,355	554,952	12,305,589	84	1,439,555	12,514,873	32,547,407
Interfund Transfers	(3,773,988)	3,300,282	5,030,187	0	0	(4,556,482)	0
Disbursements	(967,578)	(2,568,315)	(17,335,776)	0	(1,439,555)	0	(22,311,224)
Ending Balance (2007)	53,707,623	19,229,982	0	14,108	0	153,637,618	226,589,330
Receipts	6,018,643	576,780	12,703,864	85	1,233,867	(64,907,669)	(44,374,431)
Interfund Transfers	(2,957,190)	2,991,877	5,832,550	0	0	(5,867,237)	0
Disbursements	(734,085)	(2,735,569)	(18,214,612)	0	(1,233,867)	0	(22,918,132)
Ending Balance (2008)	<u>\$56,034,991</u>	<u>\$20,063,070</u>	<u>\$321,802</u>	<u>\$14,193</u>	<u>\$0</u>	<u>\$82,862,712</u>	<u>\$159,296,767</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
Annuity Savings Fund:			
Members Deductions	\$5,348,483	\$4,900,468	\$4,814,417
Transfers from Other Systems	226,898	312,350	238,772
Member Make Up Payments and Re-deposits	59,813	125,733	85,074
Member Payments from Rollovers	74,543	93,928	17,407
Investment Income Credited to Member Accounts	308,905	299,876	291,244
Sub Total	<u>6,018,643</u>	<u>5,732,355</u>	<u>5,446,915</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>576,780</u>	<u>554,952</u>	<u>528,266</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	218,076	193,358	185,909
Pension Fund Appropriation	607,376	744,663	828,375
	<u>11,878,412</u>	<u>11,367,567</u>	<u>10,239,000</u>
Sub Total	<u>12,703,864</u>	<u>12,305,589</u>	<u>11,253,284</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	85	84	84
Sub Total	<u>85</u>	<u>84</u>	<u>84</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>1,233,867</u>	<u>1,439,555</u>	<u>1,308,148</u>
Sub Total	<u>1,233,867</u>	<u>1,439,555</u>	<u>1,308,148</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	30,190	53,424	35,279
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	4,979	5,846	3,182
Miscellaneous Income	38	16	220
Excess Investment Income(Loss)	<u>(64,942,876)</u>	<u>12,455,587</u>	<u>25,179,655</u>
Sub Total	<u>(64,907,669)</u>	<u>12,514,873</u>	<u>25,218,335</u>
Total Receipts	<u>(\$44,374,431)</u>	<u>\$32,547,407</u>	<u>\$43,755,032</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2008	2007	2006
Annuity Savings Fund:			
Refunds to Members	\$431,712	\$706,888	\$321,286
Transfers to Other Systems	<u>302,372</u>	<u>260,690</u>	<u>391,132</u>
Sub Total	<u>734,085</u>	<u>967,578</u>	<u>712,418</u>
Annuity Reserve Fund:			
Annuities Paid	2,735,569	2,568,315	2,371,881
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,735,569</u>	<u>2,568,315</u>	<u>2,371,881</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	10,369,545	9,684,205	9,387,117
Survivorship Payments	1,171,785	1,079,345	1,019,697
Ordinary Disability Payments	171,347	258,081	167,335
Accidental Disability Payments	4,747,735	4,617,327	4,457,257
Accidental Death Payments	1,023,489	950,856	891,216
Section 101 Benefits	238,843	262,570	323,587
3 (8) (c) Reimbursements to Other Systems	362,929	357,055	332,974
State Reimbursable COLA's Paid	128,939	126,337	121,651
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>18,214,612</u>	<u>17,335,776</u>	<u>16,700,833</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	247,603	233,313	222,779
Legal Expenses	17,325	14,545	11,244
Medical Expenses	0	0	0
Travel Expenses	6,902	4,185	7,781
Administrative Expenses	31,247	24,732	56,729
Furniture and Equipment	2,044	7,317	7,801
Management Fees	736,374	967,802	818,846
Custodial Fees	95,390	96,400	116,792
Consultant Fees	62,083	64,125	50,000
Rent Expenses	0	0	0
Service Contracts	22,395	15,017	15,798
Fiduciary Insurance	<u>12,504</u>	<u>12,118</u>	<u>379</u>
Sub Total	<u>1,233,867</u>	<u>1,439,555</u>	<u>1,308,148</u>
Total Disbursements	<u>\$22,918,132</u>	<u>\$22,311,224</u>	<u>\$21,093,280</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
Investment Income Received From:			
Cash	\$65,900	\$128,430	\$123,995
Short Term Investments	0	0	9,694
Fixed Income	0	0	1,375,851
Equities	645,171	911,226	869,068
Pooled or Mutual Funds	1,683,272	2,826,875	3,816,846
Commission Recapture	0	0	0
Total Investment Income	<u>2,394,343</u>	<u>3,866,531</u>	<u>6,195,453</u>
Plus:			
Realized Gains	2,653,533	19,892,425	4,557,286
Unrealized Gains	15,111,543	21,239,884	28,602,221
Interest Due and Accrued - Current Year	<u>755</u>	<u>5,921</u>	<u>11,060</u>
Sub Total	<u>17,765,832</u>	<u>41,138,230</u>	<u>33,170,567</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	(548,390)
Realized Loss	(7,887,980)	(1,869,620)	(2,376,509)
Unrealized Loss	(75,089,514)	(28,374,026)	(8,994,224)
Interest Due and Accrued - Prior Year	<u>(5,921)</u>	<u>(11,060)</u>	<u>(139,500)</u>
Sub Total	<u>(82,983,415)</u>	<u>(30,254,706)</u>	<u>(12,058,623)</u>
Net Investment Income (Loss)	<u>(62,823,240)</u>	<u>14,750,054</u>	<u>27,307,397</u>
Income Required:			
Annuity Savings Fund	308,905	299,876	291,244
Annuity Reserve Fund	576,780	554,952	528,266
Military Service Fund	85	84	84
Expense Fund	<u>1,233,867</u>	<u>1,439,555</u>	<u>1,308,148</u>
Total Income Required	<u>2,119,636</u>	<u>2,294,467</u>	<u>2,127,742</u>
Net Investment Income (Loss)	<u>(62,823,240)</u>	<u>14,750,054</u>	<u>27,307,397</u>
Less: Total Income Required	<u>2,119,636</u>	<u>2,294,467</u>	<u>2,127,742</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$64,942,876)</u>	<u>\$12,455,587</u>	<u>\$25,179,655</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2008			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$1,766,504	1.1%	100%
Equities	34,041,289	21.3%	60%
Pooled Domestic Equity Funds	28,260,933	17.7%	60%
Pooled International Equity Funds	15,139,969	9.5%	15%
Pooled Domestic Fixed Income Funds	33,166,482	20.8%	100%
Pooled International Fixed Income Funds	7,245,750	4.5%	15%
Pooled Alternative Investment Funds	23,201,935	14.5%	10%
Pooled Real Estate Funds	15,753,711	9.9%	10%
PRIT Core Fund	989,914	0.6%	100%
Grand Total	<u>\$159,566,486</u>	<u>100.0%</u>	

For the year ending December 31, 2008, the rate of return for the investments of the Brookline Retirement System was -27.98%. For the five-year period ending December 31, 2008, the rate of return for the investments of the Brookline Retirement System averaged 1.05%. For the twenty-four year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Brookline Retirement System was 8.35%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Brookline Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

September 8, 2008

16.08 In accordance with Investment Guideline 99-3, the Brookline Retirement Board is authorized to invest in INVESCO Venture Partnership Fund V, L.P. The Board has been a satisfied investor in a predecessor fund. Performance has been good and the portfolio management team is essentially unchanged. The manager has submitted an updated Exemption Application.

September 24, 2007

16.08 The Brookline Retirement Board is authorized to invest in State Street Global Advisors' MSCI-EAFE Fund on a temporary basis. After several months of having the firm on "watch" due to long-term underperformance, the Board voted to terminate its previous international equity manager, The Boston Company, on September 18, 2007. The SSgA fund was selected for this mandate because the Board has two existing index fund relationships with the firm and SSgA offered the lowest cost, most efficient option.

September 24, 2007

16.08 The Brookline Retirement Board is authorized to invest in State Street Global Advisors' Lehman Aggregate Index Fund. At its September 18, 2007 meeting, the Board terminated its investment grade bond mandate with Black Rock for long-term underperformance. The SSgA fund was selected for this mandate because the Board has two existing index fund relationships with the firm and SSgA offered the lowest cost, most efficient option.

May 7, 2007

16.08 In accordance with Investment Guideline 99-3, the Brookline Retirement Board is authorized to invest in HarbourVest Partners VIII. The Board has been a satisfied investor in HarbourVest's predecessor fund, which has had a strong return to date. The management team remains essentially intact, the strategy is unchanged, and the Board has submitted the required updated regulatory documents.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

April 6, 2001

21.01 The Brookline Retirement Board has authorized State Street Research & Management Company to utilize financial futures and options in the management of its fixed income portfolio. These instruments will be used solely as tools to manage portfolio risk with regard to such measures as duration, convexity, and yield curve analysis. Use of these instruments is limited to 25% of the total value of fixed income portfolio. (All other Prohibited Investments of 21.01 still apply).

1. Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1) (c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Brookline Retirement Board request as it applies to 840 CMR 17.04(1) (c) is approved.

2. Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Brookline request as it applies to 840 CMR 17.04(6)

3. Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Brookline Retirement Board request, as it applies to 840 CMR 19.01(7) (a) (6), is approved.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

March 7, 1996

20.03(1) Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase.

November 11, 1995

20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations.

20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve month period.

February 21, 1992

4.03: Within four (4) weeks of the close of each month, after all entries for the month have been posted and a trial balance performed, the board shall send to the Public Employee Retirement Administration a photocopy of the following for the month:

- (a) cash book entries;
- (b) trial balance; and
- (c) journal entries.

February 20, 1991

16.02(4) The board may charge custodian bank expenses against earned income from investments in an amount not to exceed \$29,763.96.

December 11, 1991

16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

- 16.02(4)
- (a) 1% of the value of the fund for the first \$5 million; and
 - (b) 0.5% of the value of the fund in excess of \$5 million.

The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

September 12, 1990

20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

August 24, 1989

20.03(4) International equity and fixed income investments shall not exceed 15% of the total portfolio valued at market.

20.04(6) Foreign corporations and obligations issued and guaranteed by foreign governments

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States or traded in foreign stock markets.

February 9, 1989

4.03(1) Within four (4) weeks of the close of each month, after all entries for the month have been posted and a trial balance performed, the board shall send to the Public Employee Retirement Administration a photocopy of the following for the month:

- a. monthly checking account activity
- b. trial balance
- c. journal entries

4.03(2) The board shall instruct its custodian bank to send to the Public Employee Retirement Administration a tape of daily cash settlement activity and purchase and sale transaction information within four (4) weeks of the close of each month.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Brookline Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$687.96 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Brookline Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

November 12, 2003

Membership

All part-time, provisional, temporary or intermittent employees who are regularly scheduled to work twenty (20) hours per week are required to become members of the Brookline Contributory Retirement System and to make weekly contributions to the system pursuant to G.L.c.32, 22 (1)(B). Those employees who are not regularly scheduled to work at least twenty (20) hours per week will not be allowed membership in the Brookline Contributory Retirement System.

All appointed officials serving in non-compensated positions are ineligible for membership in the Brookline Contributory Retirement System.

All non-elected appointed officials, board members and commissioners who receive compensation and work less than twenty (20) hours per week are eligible for membership in the System. Creditable service shall be one (1) year of creditable service for every year of service in such capacity, so long as the member does not receive in excess of one (1) year of combined service for dual functions in any calendar year.

Any permanent employee of the Brookline School Department who is not a certified teacher is eligible for membership in the retirement system. Said employees will be granted credit for a full year of creditable service if they are employed full time for the job they perform even if the job only occurs during the school year.

The Board shall have full jurisdiction to determine the eligibility of employees for membership in all cases involving part-time, provisional, temporary provisional, seasonal or intermittent employment.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Creditable Service

A member whose entire service is in a part-time position shall receive one year of creditable service for each year worked provided the member works the number of hours required by the position held.

A member employed on a part-time basis who becomes a full-time employee for more than fifteen months provided those fifteen months are to be used in as part of the retirement allowance calculation in accordance with section 5(1) shall receive credit for his part-time service on a prorated basis as it relates to a full-time position.

A member employed on a full-time basis who becomes part-time shall receive credit for his part-time service on a pro rated basis as it relates to a full-time position.

Part-time membership service performed on or before the date of the regulation shall be credited with full-time service. Thereafter, all part-time service shall receive credit in accordance with the rules stated in this regulation.

Any member in service authorized by law to purchase prior creditable service may purchase such creditable service by authorizing a payroll deduction of not less than \$25.00 per week for a period not to exceed five (5) years.

Federal Grant Service

1. Employees of a member unit of the Brookline Contributory Retirement System, whose compensation is paid through a federal grant and whose employment terms and conditions would otherwise qualify them for membership, are eligible for membership in the Brookline Contributory Retirement System.

2. Members of the Brookline Contributory Retirement System who previously rendered service in a member unit under a Federal Grant (e.g. CETA, EAP, Title I, LEAA,) but were excluded or omitted from membership in the Brookline Contributory Retirement System due solely to the federal source of payment of the compensation, and whose employment terms and conditions would otherwise qualify them for membership in the Brookline Contributory Retirement System to the date of such exclusion or omission, upon full and complete payment into the retirement system of the appropriate retirement contribution. Such members are entitled to the benefits of membership which were in effect at the time of such exclusion or omission.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

3. Members of the Brookline Contributory Retirement System who have rendered prior employment service in a non-member unit and whose compensation for such service was paid through a federal grant, are eligible to purchase creditable service for such prior employment service, if such prior employment service, if rendered in a member unit, would have been eligible to be purchased. The grant of creditable service for such prior employment service shall not serve to establish retroactive membership in the Brookline Contributory Retirement System.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Comptroller who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Judith A. Haupin

Appointed Member: Stephen E. Cirillo Term Expires: 1/14/09

Elected Member: James Chet Riley, Chairman Term Expires: 12/19/11

Elected Member: Rob Ward Term Expires: 12/19/11

Appointed Member: Gary D. Altman Term Expires: 1/22/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$50,000,000 Fiduciary
Ex-officio Member:)	\$1,000,000 Fidelity
Elected Member:)	MACRS Policy
Appointed Member:)	St. Paul Travelers, National Union
Staff Employee:)	Fire and Arch

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Company as of January 1, 2008.

The actuarial liability for active members was	\$153,733,642
The actuarial liability for inactive members was	2,563,334
The actuarial liability for retired members was	<u>175,925,087</u>
The total actuarial liability was	332,222,063
System assets as of that date were	<u>223,598,975</u>
 The unfunded actuarial liability was	 <u>\$108,623,088</u>
The ratio of system's assets to total actuarial liability was	67.3%
As of that date the total covered employee payroll was	\$59,789,007

The normal cost for employees on that date was 8.72% of payroll

The normal cost for the employer was 4.10% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum

Rate of Salary Increase: 5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2008

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2008	\$223,598,975	\$332,222,063	\$108,623,088	67.3%	\$59,789,007	181.7%
1/1/2006	\$190,818,205	\$299,355,769	\$108,537,564	63.7%	\$57,008,822	190.4%
1/1/2004	\$177,153,465	\$265,441,629	\$88,288,164	66.7%	\$52,378,086	168.6%
1/1/2002	\$171,285,347	\$250,478,343	\$79,192,996	68.4%	\$45,109,610	175.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Retirement in Past Years										
Superannuation	26	38	19	33	22	26	27	18	36	3
Ordinary Disability	0	0	1	1	0	1	0	0	1	1
Accidental Disability	1	0	6	6	9	6	11	5	4	2
Total Retirements	27	38	26	40	31	33	38	23	41	6
Total Retirees, Beneficiaries and Survivors	792	798	794	803	844	842	841	827	841	844
Total Active Members	1,126	1,356	1,428	1,450	1,562	1,702	1,599	1,778	1,843	1,925
Pension Payments										
Superannuation	\$5,452,372	\$6,190,287	\$6,824,780	\$7,410,872	\$7,767,003	\$8,232,313	\$8,656,924	\$9,387,117	\$9,684,205	\$10,369,545
Survivor/Beneficiary Payments	663,337	692,432	696,580	824,253	925,202	932,587	947,792	1,019,697	1,079,345	1,171,785
Ordinary Disability	150,360	141,417	148,215	177,576	166,957	181,840	169,168	167,335	258,081	171,347
Accidental Disability	2,766,943	2,746,904	2,823,446	3,234,400	3,539,983	3,866,859	4,098,785	4,457,257	4,617,327	4,747,735
Other	1,983,141	1,992,075	1,944,705	1,295,272	1,528,047	1,381,837	1,767,450	1,669,427	1,696,818	1,754,200
Total Payments for Year	<u>\$11,016,153</u>	<u>\$11,763,115</u>	<u>\$12,437,726</u>	<u>\$12,942,373</u>	<u>\$13,927,192</u>	<u>\$14,595,436</u>	<u>\$15,640,119</u>	<u>\$16,700,833</u>	<u>\$17,335,776</u>	<u>\$18,214,612</u>

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